VZCZCXYZ0012
PP RUEHWEB

DE RUEHLGB #0158/01 0691536
ZNY CCCCC ZZH
P 101536Z MAR 09
FM AMEMBASSY KIGALI
TO RUEHC/SECSTATE WASHDC PRIORITY 5946
INFO RUEHBS/AMEMBASSY BRUSSELS 0414
RUEHJB/AMEMBASSY BUJUMBURA 0510
RUEHDR/AMEMBASSY DAR ES SALAAM 1323
RUEHKM/AMEMBASSY KAMPALA 2105
RUEHKI/AMEMBASSY KINSHASA 0659
RUEHLO/AMEMBASSY LONDON 0430
RUEHNR/AMEMBASSY NAIROBI 1440
RUEHFR/AMEMBASSY PARIS 0689
RUEHSA/AMEMBASSY PRETORIA 2038

C O N F I D E N T I A L KIGALI 000158

SIPDIS

E.O. 12958: DECL: 03/09/2018
TAGS: ECON ETRD ENGR EINV PGOV RW
SUBJECT: READING THE TEA LEAVES - RWANDA'S ECONOMIC
PROSPECTS FOR 2009

REF: A. KIGALI 141
¶B. 08 KIGALI 795
¶C. 08 KIGALI 871
¶D. KIGALI 150

Classified By: CDA Cheryl J. Sim for reasons 1.4 (b and d)

1 (SBU) Summary: Rwanda has so far weathered the global financial crisis with minimal damage. Economic growth in 2008 was an impressive 11.2 percent. The IMF predicts a slow-down of growth in 2009 to 5.6 percent - above the 3.6 average predicted for sub-Saharan Africa. Liquidity has tightened significantly over the last six months, in part due to the crisis, but has now stabilized. Loss of some donor funds over a December UN report will not have lasting effects. Strong agricultural growth predictions for 2009, and a surge of foreign investment in energy and ICT, may give Rwanda a needed boost in 2009. However, the global economic downturn and the transitory nature of donor assistance require government leaders to ensure that all support is put to the best use in the months ahead. End Summary.

Impact of Global Financial Crisis

¶2. (U) The global financial crisis to date has had a peripheral impact on Rwanda (ref B). Commodity prices, including Rwanda's top exports tea, coffee and minerals, declined during the last quarter of 2008, hurting export earnings. Circumstantial reports indicate tourist revenues also have been affected. High-end Virungas Lodge reported that in February it only filled half the bed nights it recorded last year for the same period. Also in February, the Rwandan National Park Service offered gorilla trekking passes to residents at half-price, indicating less than robust numbers of tourists to the park. Remittances and NGO transfers slowed during the last three months, according to government and press reports.

¶3. (SBU) The Rwanda Development Board (RDB) reported foreign direct investment (FDI) from Europe and North America declined from $70 million in 2006 to $12 million in 2008. This was offset by an increase of FDI from Asia from $5.75 million in 2007 to $241 million in 2008. However, most of the reported Asian investment is related to Dubai World's commitment to invest $200 million in Rwanda's tourism infrastructure. According to credible business contacts, part of the proposed investment has since been indefinitely deferred, primarily due to the global financial crisis.

¶4. (U) While the government reported overall economic growth for 2008 at 11.2 percent, most economists believe the country's growth in 2009 will to slow to below 7 percent. The IMF predicts GDP growth to decline to 5.6 percent in ¶2009. Although agricultural growth is expected to remain strong (analysts expect the spring harvest will be 15 percent stronger than last year, which was a double digit increase over 2007), non-agricultural growth will likely slow to 3.6 percent, similar to predictions for other countries in sub-Saharan Africa.

Tighter Liquidity in Financial Markets

¶5. (U) One impact of the global financial crisis on Rwanda's economy is a tightening of liquidity in the financial sector. The Rwandan Central Bank reported a sharp decrease in liquidity in 2008. In the last part of 2008 and beginning of 2009 it moved rapidly to pump liquidity into the market. The
Q2009 it moved rapidly to pump liquidity into the market. The
Central Bank reduced the reserve requirement in financial institutions from 8 to 5 percent, reduced the interbank lending rate from 3 to 2 percent and repurchased Treasury Bills from commercial banks. The resulting liquidity injection (equal to 1.4 percent of GDP) has stabilized the liquidity shortage, but not eliminated underlying concerns.

¶6. (C) Mark Plant -- IMF Deputy Director Africa Department who led a recent IMF mission to Rwanda to assess the impact of the global financial crisis on the country -- attributed the liquidity shortage in part to high growth in 2008 and

persistent inflation (inflation in 2008 tripled compared to 2007 and remained over 20 percent as of January 2009). These developments combined with negative real interest rates that discouraged domestic savings and enticed some depositors to transfer funds out of some local financial institutions. Plant advised that this new macroeconomic dynamic presents a challenge to the GOR in terms of macroeconomic management and "will require careful monitoring." Unlike its recommendations to many other countries that are seeking to reduce interest rates and stimulate their economies, the IMF is recommending that Rwanda cautiously increase real interest rates to attract savings and bring inflation below 10 percent. Plant noted this recommendation runs contrary to the GOR's strong political push for high growth, but warned if the economy becomes over stimulated it could lead to even higher inflation and worsening liquidity problems.

FDI Wild Card for Rwanda in 2009

¶7. (SBU) The visiting IMF team said it has not yet completed an assessment of Rwanda's balance of payments (BOP) profile, but noted if the BOP continues to deteriorate, downward pressure will be put on the exchange rate. The IMF predicted a drop in export revenues, remittances and FDI, partially offset by lower import prices. Comment: The IMF's prediction that FDI will drop dramatically appears more related to estimates for Sub-Saharan Africa than Rwanda specifically. Contour Global's recent signing of a $325 million energy investment in Rwanda (ref A) and the surge of investment by telecom providers MTN, Millicom and Rwandatel expected to continue into 2009, indicate that Rwanda will fair better than most for FDI in 2009, and may actually see a substantial increase over prior years. End comment.

Dutch, Swedes, Canadians cut assistance

¶8. (C) Complicating Rwanda's financial management, the Netherlands and Sweden cut an estimated $15 million in budget

support at the end of 2008 due in large measure to a UN Group of Experts' report on the Democratic Republic of Congo that commented on Rwanda's role in the eastern DRC (ref C). Additionally, Canada recently announced it would limit its development assistance to just 20 countries. Rwanda, not included among the 20 countries, stands to lose $7-10 million annually in Canadian program assistance. While some of this funding may be restored (the Dutch will review their position in April), and other donors such as the Japanese have recently increased program funding, the cuts have had an impact on the GOR. Given that approximately 50 percent of the GOR budget is funded by donors, and substantial levels of public sector support are provided in off-budget program funds such as PEPFAR, Rwanda can not afford to lose more donor assistance without abbreviating its Vision 2020 development targets. (Note: The World Bank on announced on March 7 it would donate an additional $172 million to Rwanda to help offset the impact of the global financial crisis. End note)

Kagame - Donor Aid is no Panacea

¶9. (SBU) Perhaps anticipating tightening financial support from donors, President Kagame, as he has done repeatedly over
Qfrom donors, President Kagame, as he has done repeatedly over
the past several years, recently expressed his frustration with donor support that "comes to us when others decide to give it to us, and switch it off when they want to." At the GOR's annual retreat in February he told the senior government officials assembled "we need to change the status quo of being dependent on others." Kagame also chastised government officials for wasteful spending practices (citing for example "study tours...where we learn nothing" and $37 million spent on consultants..."you can't trace or understand"). He urged those assembled to "identify priorities, cost and budget for them." Following the retreat, three ministers confirmed to DCM that they were under strict instructions to "make every penny count." All

three were looking for ways to trim expenditures, including severely limiting discretional travel (including that paid for by outside entities) and reviewing high-price contracts for services that could be provided by local organizations.

¶10. (U) President Kagame is not alone in recognizing the limitations of donor aid. In a recent East African Community (EAC) conference in Arusha, government ministers and business leaders called for reduced dependency on foreign aid, more vigorous implementation of tax reforms and more effective mobilization of domestic resources. Conference members also called on regional governments to intensify efforts to improve the investment environment in order to attract private sector capital.

¶11. (C) Comment: Like most countries, Rwanda is entering uncharted economic waters in 2009. The global financial crisis will undoubtedly have a negative impact on the economy. How much, in which sectors and for how long is unclear. While agriculture looks to be on track for robust growth in 2009, other key economic sectors are likely to suffer. The wild card for Rwanda will be FDI. If Rwanda sees a surge in new investment in energy and ICT, growth will likely exceed the 5.6 percent predicted by the IMF, albeit not the 11 percent in 2008. High inflation, which disproportionately affects lower income groups, will remain a key concern for the GOR in 2009. The global economic downturn actually may benefit the country by lowering import costs (which are currently more than double export revenues).

¶12. (C) Comment continued: With 50 percent of the GOR budget linked to donor support, obviously Rwanda is not in a position to refuse assistance from any quarter. Nonetheless, Kagame's recent comments on the nature of foreign assistance and self-reliance - coupled with a reinvigorated focus on

corruption (ref D) - are a strong message to his senior GOR leaders that they cannot conduct business as usual in 2009. The turn-down of the global economy and the transitory, if not at times fickle nature of donor support, require GOR officials to take steps to eliminate wasteful spending and ensure that every Rwandan Franc is put to the best use possible in the months ahead.
SIM